

**LAFAYETTE PUBLIC POWER AUTHORITY**

**A COMPONENT UNIT OF THE LAFAYETTE  
CITY-PARISH CONSOLIDATED GOVERNMENT**

**FINANCIAL REPORT**

**YEARS ENDED OCTOBER 31, 2012 AND 2011**

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## INDEPENDENT AUDITORS' REPORT

The Board of Commissioners  
Lafayette Public Power Authority  
Lafayette, Louisiana

We have audited the accompanying basic financial statements of the Lafayette Public Power Authority, a component unit of the Lafayette City-Parish Consolidated Government, as of and for the year ended October 31, 2012, as listed in the table of contents. These financial statements are the responsibility of the Lafayette Public Power Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Lafayette Public Power Authority, as of October 31, 2012, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated April 23, 2013, on our consideration of the Lafayette Public Power Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis on pages 4 through 7 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements. The accompanying financial information listed as "Supplementary Information" in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Lafayette Public Power Authority. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The prior year comparative information on the supplementary information has been derived from the Lafayette Public Power Authority's 2011 financial statements, which was subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, was fairly presented in all material respects in relation to the basic financial statements taken as a whole.

***Kolder, Champagne, Slaven & Company, LLC***  
Certified Public Accountants

Lafayette, Louisiana  
April 23, 2013

**MANAGEMENT'S DISCUSSION  
AND ANALYSIS**

LAFAYETTE PUBLIC POWER AUTHORITY  
OCTOBER 31, 2012

Management's Discussion and Analysis

Our discussion and analysis of the Lafayette Public Power Authority's (LPPA) financial performance provides an overview of LPPA's financial activities for the fiscal year ended October 31, 2012. It is designed to focus on the current year's activities, resulting changes, and currently known facts. Please read it in conjunction with LPPA's basic financial statements, which follow this section.

LPPA, a component unit of the Lafayette City-Parish Consolidated Government (LCG), constitutes a legal entity separate and apart from LCG and was created for the purpose of generating, purchasing and selling electric power to, or exchanging electric power with, the City of Lafayette Utilities System (LUS) and others.

**FINANCIAL HIGHLIGHTS**

- Assets of LPPA exceeded its liabilities at the close of the most recent fiscal year by \$67.7 million (*net assets*). Unrestricted fund net assets amount to \$34.1 million and may be used to meet ongoing operations and obligations.
- Investment in the Capital Assets of LPPA at the end of the year totaled \$46.5 million.
- Long-term debt outstanding decreased as a result of the scheduled payment of bond principal. The outstanding debt for the 2002, 2003A, and the 2003B Series will be extinguished November 1, 2012.

**USING THIS ANNUAL REPORT**

This report consists of Management's Discussion and Analysis, the basic financial statements, and notes to the financial statements. Management's Discussion and Analysis provides a narrative of LPPA's financial performance and activities for the year ended October 31, 2012. The basic financial statements provide readers with information about LPPA's activities and financial position, in a manner similar to private-sector business. The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

The basic financial statements consist of three statements:

- The Statement of Net Assets presents information on all of LPPA's assets and liabilities, with the difference between the two reported as net assets. Evaluating the changes (increases and decreases) in net assets over time may serve as a useful indicator of whether the financial position of LPPA is declining or improving.
- The Statement of Revenues, Expenses, and Changes in Fund Net Assets presents information on how LPPA's net assets changed during the most recent fiscal year. The statement uses the accrual basis of accounting, similar to that used by private-sector businesses. All revenues and expenses are reported regardless of the timing of when cash is received or paid.
- The Statement of Cash Flows presents information showing how LPPA's cash changed during the most recent fiscal year. It shows the sources and uses of cash.

**FINANCIAL ANALYSIS OF LPPA AS A WHOLE**

As noted earlier, net assets may serve over time as a useful indicator of financial position. Assets of the Lafayette Public Power Authority exceeded its liabilities at the close of the fiscal year by \$67.7 million (net assets). The total net assets at October 31, 2012 show a significant increase when compared to the prior year, increasing \$5.5 million or 9%. The total assets decreased \$2.4 million or 2%; however, other assets increased by \$1.5 million or 118% as a result of increased preliminary survey/investigation costs for pending projects at the Rodemacher plant. The total liabilities decreased by \$7.9 million or 14% as a result of (1) a substantial decrease in other current liabilities and long-term debt outstanding, 43% and 19% respectively, and (2) an increase in current liabilities of \$5.5 million or 162% which is mainly due to an increase in accounts payable to the Lafayette Utilities System.

LAFAYETTE PUBLIC POWER AUTHORITY  
OCTOBER 31, 2012

Management's Discussion and Analysis

LPPA has a power sales contract with the City of Lafayette Utilities System (LUS) by which LPPA has sold and the City has purchased all of LPPA's electrical generating capacity of the Rodemacher Power Station #2. In accordance with the terms and conditions of the power sales contract, the City of Lafayette Utilities System is obligated to pay LPPA's monthly power costs, which include operational costs, debt service requirements, and any other deposit requirements of LPPA's bond ordinance. However, since billings to LUS are on a cash basis, revenues and expenses for accounting purposes may not match.

Total revenues for 2012 decreased \$6 million or 9% due to a decrease in Energy Sales. The total expenses for 2012 of \$52.9 million remained constant. The non-operating expenses decreased \$0.8 million and expenses such as fuel, and production remained constant. Depreciation expenses also remained constant for 2011 when factoring in the \$1.4 million that is relative to the cost of coal used in the production of electricity (See Note 3). The revenues and expenses are illustrated in Table 2.

The largest expense of LPPA is that of Fuel Cost, which represents 77% of current year expenses. Fuel Cost is the cost of coal burned in the generation of electricity, and includes transportation and other costs. In 2012, the average cost per ton was \$51.60 which was \$2.61 more than the previous year's \$48.99 average cost per ton.

The amount of coal burned for the year was 805,693 tons, which were 24,853 less tons than burned in 2011. LPPA's coal inventory at fiscal year-end was \$18,354,970 representing 353,406 tons.

The following Table 1 reflects the comparative condensed Statement of Net Assets for 2012 and 2011.

Condensed Statement of Net Assets  
October 31, 2012

**Table 1**

	2012	2011	Increase (Decrease)	
<b>Assets</b>				
Current Assets	\$ 36,498,919	\$ 27,042,865	\$ 9,456,054	34.97%
Restricted Assets	30,867,984	46,822,609	(15,954,625)	-34.07%
Capital Assets (Net of Depreciation)	46,461,050	43,822,517	2,638,533	6.02%
Other Assets	2,714,395	1,247,364	1,467,031	117.61%
<b>Total Assets</b>	<b>\$ 116,542,348</b>	<b>\$ 118,935,355</b>	<b>\$ (2,393,007)</b>	<b>-2.01%</b>
<b>Liabilities</b>				
Current Liabilities	\$ 8,935,620	\$ 3,409,016	\$ 5,526,604	162.12%
Other Current Liabilities	8,156,513	14,265,563	(6,109,050)	-42.82%
Long Term Debt Outstanding	31,761,358	39,030,720	(7,269,362)	-18.62%
<b>Total Liabilities</b>	<b>\$ 48,853,491</b>	<b>\$ 56,705,299</b>	<b>\$ (7,851,808)</b>	<b>-13.85%</b>
<b>Net Assets</b>				
Invested in Capital Assets, net of related debt	\$ 19,378,293	\$ 12,757,827	\$ 6,620,466	51.89%
Restricted for Debt Service	14,204,636	20,824,268	(6,619,632)	-31.79%
Unrestricted	34,105,928	28,647,961	5,457,967	19.05%
<b>Total Net Assets</b>	<b>\$ 67,688,857</b>	<b>\$ 62,230,056</b>	<b>\$ 5,458,801</b>	<b>8.77%</b>

LAFAYETTE PUBLIC POWER AUTHORITY  
OCTOBER 31, 2012

Management's Discussion and Analysis

The table below provides a summary of revenues and expenses for the year ended October 31,

Lafayette Public Power Authority  
**Revenues by Category**

Table 2 Revenue Category	2012		2011	
	Amount	% of Total	Amount	% of Total
Energy Sales	\$ 58,094,335	99.52%	\$ 64,047,865	99.46%
Non-Operating Revenues	277,344	0.48%	344,574	0.54%
<b>Total Revenues</b>	<b>\$ 58,371,679</b>	<b>100.00%</b>	<b>\$ 64,392,439</b>	<b>100.00%</b>

**Expenses by Category**

Expense Category	2012		2011	
	Amount	% of Total	Amount	% of Total
Fuel (coal and gas)	\$ 40,995,322	77.48%	\$ 40,968,583	76.65%
Production (O&M)	6,496,415	12.28%	7,079,381	13.25%
Administrative & General	2,280,772	4.31%	2,497,759	4.67%
Depreciation	1,730,705	3.27%	669,941 *	1.25%
Other Non-Operating Expenses	1,409,664	2.66%	2,230,263	4.17%
<b>Total Expenses</b>	<b>\$ 52,912,878</b>	<b>100.00%</b>	<b>\$ 53,445,927</b>	<b>100.00%</b>

(See Note 3) Net of relative coal cars amount \$1,425,659 \*

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

Lafayette Public Power Authority's largest capital asset is its 50% ownership interest in the Rodemacher Power Station #2 located in Boyce, Louisiana. The remaining ownership interest in the power station is shared by CLECO (30%) and LEPA (20%). At the end of 2012, LPPA had \$46.5 million (net of depreciation) invested in capital assets. The electric plant represents 88% of the gross capital assets. Other assets include land, coal cars, and construction in progress.

**Long-Term Debt**

At October 31, 2012, LPPA had \$38,720,000 of outstanding bonded debt: \$1,105,000 of (2002 series) Electric Revenue Refunding Serial bonds, \$5,570,000 of (2003 series) Electric Revenue Refunding Serial Bonds, and \$32,045,000 of (2007 series) Electric Revenue Serial Bonds.



**LAFAYETTE PUBLIC POWER AUTHORITY**  
**OCTOBER 31, 2012**

**Management's Discussion and Analysis**

As of October 31, 2012, the LPPA Revenue Bonds are rated as follows:

	<b>Moody's Investors Service</b>	<b>Standard &amp; Poor's</b>
Insured Ratings	Aaa	AAA
Underlying Ratings	A1	A

Detailed information on LPPA's long-term debt can be found in Note 4 of the Notes to the Financial Statements.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The Fiscal Year 2013 Budget includes a \$9.3 million decrease in billed revenue to LUS; which is a result of a \$7 million decrease in debt service and \$2.3 million decrease in fuel and O&M as compared to the Fiscal Year 2012 budget. The debt service decrease is a result of a retirement of the Refunding Series 2002, 2003A, and 2003B bonds. In December 2012, LPPA issued bonds at a cost of \$65.1 million. An amended budget is scheduled to be approved in fiscal year 2013. It will include an increase in debt service of \$5 million for the 2012 bond issuance thus changing the Fiscal Year 2013 decrease from \$9.3 million to \$4.3 million. Funds from the December 2012 bond issue are being used to finance its portion of the costs to comply with EPA environmental standards at the Rodemacher Unit No. 2 Power Station. Detailed information can be found in Note 7(B) of the Notes to the Financial Statements.

Since the City of Lafayette Utilities System (LUS) is LPPA's major customer and they share the same governing authority, their budget preparation processes runs parallel. The LUS projected revenues and generation needs are major factors in the consideration of LPPA's budget. Economic projections for LUS's electric kWh sales are moderately conservative and based on historical growth trends. For the LUS 2013 budget, electric retail kWh sales are projected to increase by 5.54% over Fiscal Year 2012 budgeted sales and electric wholesale kWh sales are projected at a minimum for spot sales. The average retail electric rate per kWh is projected to increase from Fiscal Year 2012 actual of \$.084 to \$.08548 for Fiscal Year 2013 budget. This drives an increase in electric sales and a decrease in the projected fuel costs for Fiscal Year 2013.

Other economic indicators of the City of Lafayette (including LUS and, therefore, LPPA), such as sales tax growth, unemployment rates, and residential and commercial permits are also considered. These factors were positive, but conservative estimates are used for budget purposes. LPPA sales projections are based upon economic dispatch of all LPPA/LUS facilities with consideration of reliability, unit maintenance, transmission constraints, and directives by the regional load regulators. For Fiscal Year 2013, LPPA kWh generation represents 64% of LUS's kWh requirements.

**CONTACTING THE LAFAYETTE PUBLIC POWER AUTHORITY FINANCIAL MANAGEMENT**

This financial report is designed to provide a general overview of the Lafayette Public Power Authority's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Chief Financial Officer, Lafayette Public Power Authority, P.O. Box 4017-C, Lafayette, Louisiana 70502.

## **BASIC FINANCIAL STATEMENTS**

LAFAYETTE PUBLIC POWER AUTHORITY  
Lafayette, Louisiana

Statements of Net Assets  
October 31, 2012 and 2011

	2012	2011
ASSETS		
CURRENT ASSETS		
Cash	\$ 1,654,766	\$ 422,474
Investments	14,200,000	11,300,000
Accounts receivable	23,090	29,037
Inventory	20,621,063	15,291,354
Total current assets	<u>36,498,919</u>	<u>27,042,865</u>
NONCURRENT ASSETS		
Restricted assets:		
Cash with paying agent	8,156,513	14,265,563
Cash:		
Bond reserve	36,084	3,898
Reserve and contingency	63,741	63,741
Investments (at fair value):		
Construction bonds	4,006,835	7,232,778
Bond reserve	8,962,607	15,591,545
Reserve and contingency	5,100,000	5,100,000
Fuel cost stability	4,500,000	4,500,000
Accrued interest receivable:		
Bond reserve	42,204	65,084
Total restricted assets	<u>30,867,984</u>	<u>46,822,609</u>
DEFERRED CHARGES		
Preliminary survey/investigation costs	2,042,629	514,112
Unamortized debt expense	671,766	733,252
Total deferred charges	<u>2,714,395</u>	<u>1,247,364</u>
PROPERTY, PLANT, AND EQUIPMENT		
Land	201,964	201,964
Construction in progress	3,806,127	1,202,180
Plant in service	144,146,161	142,355,192
Coal cars	16,024,525	16,024,525
Total	164,178,777	159,783,861
Less: accumulated depreciation	<u>(117,717,727)</u>	<u>(115,961,344)</u>
Net property, plant, and equipment	46,461,050	43,822,517
Total noncurrent assets	<u>80,043,429</u>	<u>91,892,490</u>
Total assets	<u>\$ 116,542,348</u>	<u>\$ 118,935,355</u>

The accompanying notes are an integral part of the basic financial statements.

	2012	2011
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 2,359,819	\$ 1,918,780
Due to primary government	2,994	2,411
Due to Lafayette Utilities System	6,572,807	1,487,825
Total	<u>8,935,620</u>	<u>3,409,016</u>
<b>CURRENT LIABILITIES (payable from restricted assets)</b>		
Revenue bonds payable	7,235,000	13,030,000
Accrued interest payable	921,513	1,235,563
Total	<u>8,156,513</u>	<u>14,265,563</u>
Total current liabilities	<u>17,092,133</u>	<u>17,674,579</u>
<b>NONCURRENT LIABILITIES</b>		
Revenue bonds payable	31,485,000	38,720,000
Unamortized premium	276,358	1,047,181
Unamortized loss on bond refunding	-	(736,461)
Total noncurrent liabilities	<u>31,761,358</u>	<u>39,030,720</u>
Total liabilities	<u>48,853,491</u>	<u>56,705,299</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	19,378,293	12,757,827
Restricted for debt service	14,204,636	20,824,268
Unrestricted	34,105,928	28,647,961
Total net assets	<u>67,688,857</u>	<u>62,230,056</u>
 Total liabilities and net assets	 <u>\$ 116,542,348</u>	 <u>\$ 118,935,355</u>

LAFAYETTE PUBLIC POWER AUTHORITY  
Lafayette, Louisiana

Statements of Revenues, Expenses, and Changes in Fund Net Assets  
For the Years Ended October 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating revenues:		
Charges for services	\$ 58,094,335	\$ 64,047,865
Operating expenses:		
Production	47,352,514	47,900,234
Transmission	139,223	147,730
Administration and general	2,280,772	2,497,759
Depreciation	1,730,705	669,941
Total operating expenses	<u>51,503,214</u>	<u>51,215,664</u>
Operating income	<u>6,591,121</u>	<u>12,832,201</u>
Nonoperating revenues (expenses):		
Interest income	277,344	190,783
Interest expense	(246,001)	(836,798)
Amortization of debt expense	(114,403)	(114,403)
Amortization of loss on reacquired debt	(736,461)	(1,161,850)
Net loss on disposition of capital assets	(158,389)	(117,212)
Gain (loss) on investments	(154,410)	153,791
Total nonoperating revenues (expenses)	<u>(1,132,320)</u>	<u>(1,885,689)</u>
Change in net assets	5,458,801	10,946,512
Net assets, beginning	<u>62,230,056</u>	<u>51,283,544</u>
Net assets, ending	<u>\$ 67,688,857</u>	<u>\$ 62,230,056</u>

The accompanying notes are an integral part of the basic financial statements.

LAFAYETTE PUBLIC POWER AUTHORITY  
Lafayette, Louisiana

Statements of Cash Flows  
For the Years Ended October 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 63,164,113	\$ 63,911,254
Payments to suppliers for goods and services	(54,137,875)	(46,152,344)
Payments to employees and for employee related costs	<u>(409,130)</u>	<u>(390,851)</u>
Net cash provided by operating activities	<u>8,617,108</u>	<u>17,368,059</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Principal payments on bonds	(13,030,000)	(12,365,000)
Interest paid	(2,157,076)	(2,769,071)
Bond issuance costs	(52,917)	-
Preliminary survey/investigation costs paid	(1,528,517)	(485,954)
Purchase and construction of capital assets	<u>(3,793,865)</u>	<u>(880,603)</u>
Net cash used by capital and related financing activities	<u>(20,562,375)</u>	<u>(16,500,628)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Sales (purchases) of investments - net	6,473,528	31,122
Interest earnings	<u>301,224</u>	<u>175,299</u>
Net cash provided by investing activities	<u>6,774,752</u>	<u>206,421</u>
Net increase (decrease) in cash and cash equivalents	(5,170,515)	1,073,852
Cash and cash equivalents, beginning of the year	<u>42,888,454</u>	<u>41,814,602</u>
Cash and cash equivalents, end of the year	<u>\$ 37,717,939</u>	<u>\$ 42,888,454</u>

(continued)

LAFAYETTE PUBLIC POWER AUTHORITY  
Lafayette, Louisiana

Statements of Cash Flows (Continued)  
For the Years Ended October 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 6,591,121	\$ 12,832,201
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,730,705	669,941
Debt service on coal cars in inventory	1,226,815	2,289,165
Change in assets and liabilities:		
Accounts receivable	5,947	(2,860)
Inventory	(5,329,709)	584,343
Accounts payable	(693,336)	1,091,138
Due to other governments	5,085,565	(95,869)
Net cash provided by operating activities	<u>\$ 8,617,108</u>	<u>\$ 17,368,059</u>
Noncash investing, capital and financing activities:		
Capital assets contributed	<u>\$ -</u>	<u>\$ -</u>
Increase (decrease) in fair value of investments	<u>\$ (154,410)</u>	<u>\$ 153,791</u>
Net loss on disposal of capital assets	<u>\$ 158,389</u>	<u>\$ 117,212</u>
Cash and cash equivalents, beginning of period		
Cash - unrestricted	\$ 422,474	\$ 172,903
Investments - unrestricted	11,300,000	10,300,000
Cash - restricted	14,333,202	13,993,049
Investments - restricted	16,832,778	17,348,650
Total	<u>42,888,454</u>	<u>41,814,602</u>
Cash and cash equivalents, end of period		
Cash - unrestricted	1,654,766	422,474
Investments - unrestricted	14,200,000	11,300,000
Cash - restricted	8,256,338	14,333,202
Investments - restricted	13,606,835	16,832,778
Total	<u>37,717,939</u>	<u>42,888,454</u>
Net increase (decrease)	<u>\$ (5,170,515)</u>	<u>\$ 1,073,852</u>

The accompanying notes are an integral part of the basic financial statements.

LAFAYETTE PUBLIC POWER AUTHORITY  
Lafayette, Louisiana

Notes to the Basic Financial Statements (Continued)

(1) Summary of Significant Accounting Policies

A. Reporting Entity

The Lafayette Public Power Authority (Authority) is a political subdivision of the State of Louisiana created for the purpose of planning, financing, constructing, acquiring, improving, operating, maintaining and managing public power projects or improvements solely or jointly with other public or private corporations and for the purpose of providing electric power for the City of Lafayette and others. The Authority constitutes a legal entity separate and apart from the Lafayette City-Parish Consolidated Government (Lafayette Consolidated Government). The Lafayette City-Parish Council is the governing authority, its Chief Executive Officer is the President of the Lafayette Consolidated Government, its Managing Director is the Director of Lafayette Utilities System (LUS), and its Secretary is the Lafayette Consolidated Government's Clerk.

The Authority, Central Louisiana Electric Company, Inc. (CLECO) and Louisiana Energy and Power Authority (LEPA) are parties to agreements governing the ownership and operation of the electric generating and transmission facilities. CLECO manages the construction and operation of the fossil fuel steam electric generating plant known as Rodemacher Unit No. 2. The project is owned jointly by the Authority (50%), CLECO (30%) and LEPA (20%). The financial information contained in these statements is only that of the Authority.

The Authority entered into a power sales contract with the City of Lafayette on May 1, 1977. The City agreed to purchase and the Authority agreed to sell the "project capability," which is the amount of electric power and energy, if any, which the project is capable of generating, with certain limitations. The project is defined as the Authority's fifty percent (50%) ownership interest in the fossil fuel steam electric generating plant.

The Authority, reported in these statements as a proprietary fund, prepares its financial statements in accordance with the standards established by the Governmental Accounting Standards Board (GASB). GASB Statement No. 14 has defined the governmental reporting entity to be the Lafayette Consolidated Government. The accompanying statements present only transactions of the Authority, a component unit of the Lafayette Consolidated Government.

B. Basis of Accounting

The accounts of the Authority are maintained substantially in accordance with the Uniform System of Accounts of the Federal Energy Regulatory Commission (FERC) and are in conformity with generally accepted accounting principles (GAAP). Such accounting and reporting policies also conform to the requirements of Louisiana Revised Statute 24:517 and to the guidelines set forth in the Louisiana Governmental Audit Guide. In certain instances, FERC regulations differed from generally accepted accounting principles. In those situations, the Authority followed the FERC guidance, as directed by law. However, amounts reported, according to FERC regulations, did not differ materially from GAAP.

The Authority maintains its books and records on the full accrual basis of accounting and on the flow of economic resources measurement focus. The Authority applies all applicable professional standards in accounting and reporting for its proprietary operations.



LAFAYETTE PUBLIC POWER AUTHORITY  
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Notes to the Basic Financial Statements (Continued)

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

On November 1, 2001, the Authority adopted the provisions of Statement No. 34 ("Statement 34") of the Governmental Accounting Standards Board "Basic Financial Statements - and Management's Discussion and Analysis-for State and Local Governments." Statement 34 established standards for external reporting for all state and local governmental entities, which includes a statement of net assets, a statement of revenues, expenses and changes in fund net assets and a statement of cash flows. It requires the classification of fund net assets into three components -invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- (1) Invested in capital assets, net of related debt - This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.
- (2) Restricted - This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- (3) Unrestricted net assets - This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

C. Property, Plant, and Equipment

Property, plant, and equipment are recorded at cost and include direct and overhead costs and the costs of funds borrowed by the Authority and used for construction purposes.

Depreciation of property, plant, and equipment is computed using the straight-line method over the expected service lives of the assets as follows:

	<u>Years</u>
Production plant	50-95
General plant	5-45
Coal cars	27

LAFAYETTE PUBLIC POWER AUTHORITY  
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Notes to the Basic Financial Statements (Continued)

D. Investments

Under State law, the Authority may invest in United States bonds, treasury notes, or certificates and time deposits of state banks organized under Louisiana law and national banks having principal offices in the State of Louisiana. In accordance with GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools, investments meeting the criteria specified in the Statement are stated at fair value, which is either a quoted market price or the best estimate available. Investments which do not meet the requirements are stated at cost. These investments include overnight repurchase agreements. U.S. Treasury and agency obligations that have a remaining maturity at time of purchase of one year or less are shown at amortized cost.

E. Inventory

Coal inventory is stated at the lower of cost or market as determined by the average cost method. Coal inventory amounted to \$18,354,970 representing 353,406 tons at October 31, 2012 and \$13,169,008 representing 261,157 tons at October 31, 2011.

The spare parts and supplies inventory is stated at the lower of cost or market as determined by the average cost method and amounted to \$2,266,093 and \$2,122,346 at October 31, 2012 and 2011, respectively.

F. Unamortized Debt Expense

Debt expense incurred at bond issuance is capitalized and amortized over the life of the bonds using the sum of the bonds outstanding method.

G. Unamortized Loss on Bond Refunding

Losses incurred upon refunding of debt are treated as deferred charges and amortized over the life of the new bonds issued.

H. Electric Revenue Bonds

Bonds outstanding are reported net of unamortized premium and unamortized loss on reacquired debt. The premium is amortized over the life of the bonds using the sum of the bonds outstanding method.

I. Salaries and Related Expenses

The Authority reimburses the Lafayette Consolidated Government for salaries, benefits and related expenses of employees who perform duties for the Authority. The Authority is not liable and, therefore, does not accrue vacation and sick-time benefits.

J. Cash Flows

For purposes of the Statements of Cash Flows, the Authority considers all highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents.

LAFAYETTE PUBLIC POWER AUTHORITY  
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Notes to the Basic Financial Statements (Continued)

K. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(2) Cash and Investments

Cash and investments include bank balances and investments that at the balance sheet date were entirely insured or collateralized with securities held by the Authority or by its agent in the Authority's name. Cash balances are stated at cost, which approximates market. Under state law, these deposits (or the resulting bank balances) must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. The Authority has no custodial credit risk associated with these deposits.

During the years ended October 31, 2012 and 2011, the Authority realized no gain or loss from the sale of investments. The calculation of realized gains is independent of the calculation of the net increase in the fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year may have been recognized as an increase or decrease in the fair value of investments reported in the prior year. The increase/(decrease) in the fair value of investments during the years ended October 31, 2012 and 2011 was \$(154,410) and \$153,791, respectively. These amounts take into account all changes in fair value (including purchases and sales) that occurred during the year. The unrealized gain on investments held at October 31, 2012 and 2011 was \$18,258 and \$172,668, respectively.

As of October 31, 2012, the Authority had the following investments and maturities:

<u>Investment Type</u>	<u>% of Portfolio</u>	<u>Investment Maturities</u>		
		<u>Fair Value</u>	<u>Less Than One Year</u>	<u>One - Five Years</u>
Repurchase agreements	76%	\$ 27,806,835	\$ 27,806,835	\$ -
U.S. Instrumentalities	24%	8,962,607	6,456,026	2,506,581
Total	100%	\$ 36,769,442	\$ 34,262,861	\$ 2,506,581

As a component unit of the Lafayette Consolidated Government, the Authority follows the Cash Management Rules and Guidelines of the Lafayette Consolidated Government. The following are the risks associated with these rules and guidelines.

**Interest Rate Risk:** As a means of limiting its exposure to fair-value losses arising from rising interest rates, the Authority's investment policy limits the investment portfolio to "money market instruments, which are defined as very creditworthy, highly liquid investments with maturities of one year or less. Although there may be certain circumstances in which longer-term securities are utilized, the general use of long-term securities shall be avoided.

LAFAYETTE PUBLIC POWER AUTHORITY  
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Notes to the Basic Financial Statements (Continued)

Credit Risk: The Authority's Investment Policy limits investments to fully insured and/or fully-collateralized certificates of deposits and direct and indirect obligations of U.S. government agencies. At October 31, 2012, the Authority's investments in the Federal Home Loans Bank, the Federal Farm Credit Bank, and the Federal Home Loan Mortgage Company (as noted on the above chart) was rated AAA by Standard & Poor's and Aaa by Moody's Investors Service.

Concentration of Credit Risk: The Authority's investment policy limits the Authority's investment instruments to: 1) Certificates of Deposit; 2) Certain direct obligations of the US Government; 3) Other "direct obligations" of the US Government; and, 4) Obligations of certain US Government Agencies.

(3) Property, Plant, and Equipment

The following is a summary of changes in property, plant, and equipment:

	Balance 11/01/11	Additions	Deletions	Balance 10/31/12
Property, plant, and equipment not being depreciated:				
Land	\$ 201,964	\$ -	\$ -	\$ 201,964
Construction in progress	1,202,180	4,999,934	2,395,987	3,806,127
Other property, plant, and equipment:				
Production plant	141,394,907	1,576,555	569,988	142,401,474
General plant	960,285	819,432	35,030	1,744,687
Coal cars	16,024,525	-	-	16,024,525
Totals	159,783,861	7,395,921	3,001,005	164,178,777
Less accumulated depreciation	115,961,344	2,131,318	374,935	117,717,727
Property, plant, and equipment, net	\$ 43,822,517	\$ 5,264,603	\$ 2,626,070	\$ 46,461,050

Depreciation expense charged to operations for the years ended October 31, 2012 and 2011 was \$2,131,318 and \$2,095,600, respectively. Of the total depreciation expense, \$400,613 and \$1,425,659, relative to the coal cars, was charged to the cost of coal used in the production of electricity for the years ended October 31, 2012 and 2011, respectively.

Construction in progress for the Authority is comprised of the following:

Funding source/ Project type:	Project Authorization	Expended to Date	Capitalized	Construction in Progress 10/31/2012
Equity-				
Electric plant	\$ 659,375	\$ 132,471	\$ 54,009	\$ 78,462
Bond proceeds-				
Electric plant	5,098,553	4,952,016	1,224,351	3,727,665
Total	\$ 5,757,928	\$ 5,084,487	\$ 1,278,360	\$ 3,806,127

LAFAYETTE PUBLIC POWER AUTHORITY  
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Notes to the Basic Financial Statements (Continued)

(4) Electric Revenue Bonds

The following is a summary of the electric revenue bonds transactions for the year ended October 31, 2012:

Issue	Balance 11/1/2011	Additions	Deletions	Balance 10/31/2012	Due Within One Year
Serial Bond - 2002	\$ 2,380,000	\$ -	\$ 1,275,000	\$ 1,105,000	\$ 1,105,000
Serial Bond - 2003	16,785,000	-	11,215,000	5,570,000	5,570,000
Serial Bond - 2007	32,585,000	-	540,000	32,045,000	560,000
	<u>\$ 51,750,000</u>	<u>\$ -</u>	<u>\$ 13,030,000</u>	<u>\$ 38,720,000</u>	<u>\$ 7,235,000</u>

The Authority issues bonds where it pledges project power revenues, after payment of operating expenses, as well as assets of the Authority, as established by ordinance. Revenue bonds outstanding at October 31, 2012 and 2011 are as follows:

Purpose	Interest Rate	Issue Date	2012	2011
Electric Revenue Refunding Serial Bonds Series 2002	2.85% - 4.00%	09/01/02	\$ 1,105,000	\$ 2,380,000
Electric Revenue Refunding Serial Bonds Series 2003	5.00%	08/04/03	5,570,000	16,785,000
Electric Revenue Refunding Serial Bonds Series 2007	3.50% - 5.00%	12/05/07	<u>32,045,000</u>	<u>32,585,000</u>
Total principal outstanding			38,720,000	51,750,000
Add: unamortized premium			276,358	1,047,181
Less: unamortized loss on refunding			<u>-</u>	<u>(736,461)</u>
Net revenue bonds outstanding			<u>\$ 38,996,358</u>	<u>\$ 52,060,720</u>

Revenue bond debt service requirements to maturity are as follows:

Year Ended October 31	Principal	Interest	Total
2013	\$ 7,235,000	\$ 1,671,029	\$ 8,906,029
2014	580,000	1,486,594	2,066,594
2015	605,000	1,462,056	2,067,056
2016	630,000	1,435,069	2,065,069
2017	660,000	1,406,981	2,066,981
2018 - 2022	3,720,000	6,597,909	10,317,909
2023 - 2027	4,610,000	5,680,375	10,290,375
2028 - 2032	15,700,000	3,744,625	19,444,625
2033	<u>4,980,000</u>	<u>124,500</u>	<u>5,104,500</u>
	<u>\$ 38,720,000</u>	<u>\$ 23,609,138</u>	<u>\$ 62,329,138</u>

LAFAYETTE PUBLIC POWER AUTHORITY  
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Notes to the Basic Financial Statements (Continued)

Prior Year Issue

On December 5, 2007, the Authority issued \$34,045,000 in Electric Revenue Bonds dated December 6, 2007, with interest rates ranging from 3.50 to 5.00 percent. The net proceeds of \$33,926,453 (after premiums of \$344,296 and payment of \$462,843 in underwriting fees) are to provide capital to fund construction projects. Bond proceeds in the amount of \$15,945,966 were used to purchase 246 aluminum rail cars, which have a useful life of 27 years. The remaining proceeds will be used to fund its share of capital projects at the Rodemacher Unit No. 2 Power Station. The projects include but are not limited to the installation of Low Nox burners, a rewind of the Generator Stator, a re-tube of the main condenser, and the replacement of the feed water heater.

Prior Year Refundings

On August 4, 2003, the Authority issued \$61,210,000 of Electric Revenue Refunding Bonds dated August 4, 2003, with an interest rate of 5.00 percent to advance refund \$66,400,000 of outstanding 1993 Series bonds with an interest rate ranging from 2.80 to 5.25 percent. The net proceeds of \$67,638,981 (after premiums of \$7,393,484 and payment of 964,503 in underwriting fees, insurance, and other issuance costs) plus an additional \$1,636,481 of 1993 Series bonds sinking fund monies were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1993 Series bonds. As a result, the 1993 Series bonds are considered to be defeased and the liability for those bonds has been removed from the financial statements. The 1993 Series bonds were called on the optional call date of November 1, 2004, for a partial legal defeasance.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$3,989,680. The difference, reported in the accompanying financial statements as a deduction from bonds payable, and will be charged to operations through the year 2012. The loss amortization for the years ended October 31, 2012 and 2011 was \$363,054 and \$730,996, respectively. The remaining unamortized loss at October 31, 2012 and 2011 was \$0 and \$363,054, respectively. The government completed the advance refunding to reduce its total debt service payments over the next nine years by \$6,478,124 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$5,732,007.

On September 12, 2002, the Authority issued \$30,340,000 of Electric Revenue Refunding Bonds dated September 1, 2002, with interest rates ranging from 2.85 to 4.00 percent to advance refund \$29,855,000 of outstanding 1996 Series bonds with an interest rate ranging from 3.70 to 5.25 percent. The net proceeds of \$30,121,607 (after premiums of \$223,760 and payment of \$442,153 in underwriting fees, insurance, and other issuance costs) plus an additional \$736,943 of 1996 Series bonds sinking fund monies were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1996 Series bonds. As a result, the 1996 Series bonds are considered to be defeased and the liability for those bonds has been removed from the financial statements. The 1996 Series bonds were called on the optional call date of November 1, 2002, for a complete legal defeasance.



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Notes to the Basic Financial Statements (Continued)

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$10,252,646. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2012. The loss amortization for the years ended October 31, 2012 and 2011 was \$373,407 and \$430,854, respectively. The remaining unamortized loss at October 31, 2012 and 2011 was \$0 and \$373,407, respectively. The government completed the advance refunding to reduce its total debt service payments over the next 10 years by \$2,260,203 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$1,779,886.

(5) Reconciliation of Income with Billings

Pursuant to Section 7.2 of its bond ordinance, the Authority is required to fix, establish, maintain and collect sufficient rates and charges to pay all costs of operations and maintenance, repairs, renewals and replacements, debt service installments and deposits into the bond reserve account and the bond reserve and contingency fund. Further, the power sales contract with the City of Lafayette provides that the components of the billing to the City includes all such costs and deposit requirements and also include a credit for all receipts from other sources.

Because of the differences between receipts and costs for billing purposes and revenues and expenses for statement presentation, the Statement of Revenues and Expenses might reflect a net income or loss for the year even though the authority was in compliance with all provisions of the bond covenant. For example, for statement presentation, the costs of capital items are billed and included as revenue from the City of Lafayette, but are shown as an asset rather than an expense. Similarly, some items considered as receipts for billing purposes are not treated as revenues for accounting purposes.

The following is a reconciliation of net income (loss) with billings for the years ended October 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Billing charges not treated as expenses for accounting purposes:		
Capital expenses	\$ 747,959	\$ 480,963
Principal (net of coal cars)	6,834,387	11,604,341
Accounting expenses not treated as charges for billing purposes		
Depreciation (net)	(1,730,705)	(669,941)
Amortization of:		
Debt issue expense	(114,403)	(114,403)
Loss on bond refunding	(736,461)	(1,161,850)
Bond premium	770,823	770,823
Unrealized gain (loss) on investment	(154,410)	153,791
Net loss on disposition of capital assets	(158,389)	(117,212)
Net income	<u>\$ 5,458,801</u>	<u>\$ 10,946,512</u>

LAFAYETTE PUBLIC POWER AUTHORITY  
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Notes to the Basic Financial Statements (Continued)

(6) Flow of Funds/Restrictions on Use

Under the terms of the ordinance authorizing and providing for the issuance of electric revenue bonds of the Authority to finance the acquisition of an ownership interest in a fossil fuel steam electric generating plant and for other purposes relating thereto, the bonds are special obligations of the Authority payable solely from and secured by the revenues and other funds including bond proceeds. Such revenues consist of all income, fees, charges, receipts, profits, and other money derived by the Authority from its ownership and operation of the fossil fuel steam electric generating plant, other than certain money derived during the period of construction.

Money in the revenue fund shall be first applied to the payment of operating expenses of the plant, exclusive of depreciation and amortization. Money in the revenue fund shall then be deposited into the bond fund to pay principal and premium, if any, and interest on all bonds as they become due and payable and then applied to maintain in the bond fund reserve account an amount equal to the maximum annual debt service requirement on all bonds (initially funded from bond proceeds). After making the required payments into the operating account and bond fund, there shall be paid out of the revenue fund into the reserve and contingency fund an amount equal to \$1,500,000 or such greater amount as may be determined by the consulting engineer; provided that there shall not be required to be paid therein during any month an amount in excess of twenty-five percent (25%) of the amounts required to be paid during such month to the bond fund.

If on any October 31st following the date of commercial operation, the monies credited (or to be credited as of such date) to the revenue fund shall exceed the Authority's required amount of working capital for the operations of the plant, the amount of such excess shall be applied by the Authority (i) to reduce monthly power costs to the City of Lafayette under the power sales contract; (ii) to pay the cost of making repairs, renewals and replacements, additions, betterments and improvements to and extensions of the plant operations; (iii) to the purchase or redemption of bonds; (iv) to any other purpose in connection with the plant operation; or, (v) to any other lawful purpose of the Authority, including the payment of subordinated indebtedness.

The fuel cost stability fund was established to allow level billings to the retail customer when the generating plant is out of service for a period of seven days or more. In those instances, a credit may be applied to the monthly power bill to the City of Lafayette. When the unit has been returned to operation, the funds, which were applied as a credit, are recovered by application of a surcharge to restore the fund balance over a reasonable period of time.

The reserve and contingency cash and investment balance at October 31, 2012 and 2011 was \$5,163,741 for each year.

(7) Commitments and Contingencies

A. Coal Purchase Commitment

On May 5, 2011, the Authority and Louisiana Energy and Power Authority (LEPA) entered into a one-year contract with Arch Coal Sales Company, Inc. through December 31, 2012. The Authority's share of the contract tonnage to be purchased is 900,000 tons.



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Notes to the Basic Financial Statements (Continued)

On March 26, 2012 the Authority and LEPA entered into a two-year contract with Arch Coal Sales Company, Inc. which expires on December 31, 2014. The Authority's share of the contract tonnage to be purchased is 1,800,000 tons.

The terms of the contracts and annual quantities to be purchased are as follows:

<u>Calendar Year</u>	<u>Annual Quantity</u>	<u>Committed Cost</u>	<u>Purchase Commitment</u>
2012	900,000	14.25	\$ 12,825,000
2013	900,000	12.00	10,800,000
2014	900,000	13.00	11,700,000
	<u>2,700,000</u>		<u>\$ 35,325,000</u>

The contract price per ton is to be adjusted quarterly based upon the changes in certain economic indices stated in the contract.

As of October 31, 2012, the Authority purchased 754,276 tons at \$14.25 per ton for a total cost of \$10,748,433 under the calendar year 2012 contract.

B. Environmental Regulations

The Authority is subject to federal, state and local laws and regulations governing the protection of the environment. Violations of these laws and regulations may result in substantial fines and penalties. The Authority has obtained the environmental permits necessary for its operation, and management believes the Authority is in compliance in all material respects with these permits, as well as all applicable environmental laws and regulations. Environmental requirements affecting electric power generation facilities are complex, change frequently, and have become more stringent over time as a result of new legislation, administrative actions, and judicial interpretations. Therefore, the capital costs and other expenditures necessary to comply with existing and new environmental requirements are difficult to determine.

The Environmental Protection Agency (EPA) has proposed and adopted rules under the authority of the Clean Air Act (CAA) relevant to the emissions of sulfur dioxide (SO<sub>2</sub>) and nitrogen oxide (NO<sub>x</sub>) from the Authority's generating units. The CAA established the Acid Rain Program to address the effects of acid rain and imposed restriction on SO<sub>2</sub> emissions from certain generating units. The CAA requires these generating units to possess a regulatory "allowance" for each ton of SO<sub>2</sub> emitted beginning in the year 2000. The EPA allocates a set number of allowances to each affected unit based on its historic emissions. As of October 31, 2012, the Authority had sufficient allowances for 2012 operations and expects to have sufficient allowances for 2013 operations under the Acid Rain Program. The Acid Rain Program also established emission rate limits on NO<sub>x</sub> emissions for certain generating units. The Authority is able to achieve compliance with the Acid Rain Program permit limits for NO<sub>x</sub> at the Rodemacher Unit.

On July 6, 2011, the EPA finalized a rule titled "Federal Implementation Plans to Reduce Interstate Transport of Fine Particulate Matter and Ozone" known as CSAPR that would require significant reductions in SO<sub>2</sub> and NO<sub>x</sub> emissions from electric generating units (EGUs) in 28 states, including Louisiana.

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Notes to the Basic Financial Statements (Continued)

Under CSAPR, the EPA would set total emissions limits for each state allowing limited interstate (and unlimited intrastate trading) of emission allowances among power plants to comply with these limits beginning January 1, 2012. Specifically for Louisiana, CSAPR would limit NOx emissions for the ozone season, consisting of the months of May through September.

On December 30, 2011, in response to petitions by both state and industry participants, the D. C. Circuit Court of Appeals issued an order staying implementation of CSAPR pending resolution of legal challenges to the rule. The Court further ordered that the Clean Air Interstate Rule (CAIR), a predecessor rule to CSAPR, remain in place while CSAPR is stayed. On August 21, 2012, the U.S. Court of Appeals for the D.C. Circuit vacated CSAPR. The Court directed the EPA to revise the rule consistent with their opinion and to maintain the CAIR until it is replaced. A Selective Non-Catalytic Reduction (SNCR) is currently being installed on the Rodemacher Unit to address emission limits required by the future revised CSAPR.

The EPA also has adopted rules under Section 112 of the CAA governing the emissions of mercury and other hazardous air pollutants from certain EGUs. The EPA established maximum achievable control technology (MACT) standards for coal-fired EGUs in late 2011, and signed a final rule setting forth national emissions standards for hazardous air pollutants from coal- and oil-fired electric utility steam generating units on December 16, 2011. The final rule is now known as MATS. MATS requires affected EGUs to meet specific numeric emission standards and work practice standards to address hazardous air pollutants.

In order to comply with these regulations, the Authority's 50% share of costs is approximately \$74,600,000. Compliance with CSAPR is estimated to be completed during the 2012-2013 fiscal year at a cost of \$6,100,000. Compliance with MATS is estimated to be completed during the 2013-2014 fiscal year at a cost of \$68,500,000. Funding for these projects will be obtained from existing funds and proceeds from the issuance of bonds. On December 21, 2012, Series 2012 Electric Revenue Bonds were issued and the net proceeds of \$74,000,000 were deposited into the construction fund account.

(8) Litigation

There is no litigation pending against the Authority at October 31, 2012.

(9) Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Authority, through its agreement with CLECO is insured to reduce the exposure to these risks.

(10) Related Party Transactions

The Lafayette Consolidated Government provides management and administrative support functions to the Authority in exchange for a fee. The amount charged to the Authority for these services for the years ended October 31, 2012 and 2011 amounted to \$86,766 and \$93,836, respectively. As of October 31, 2012 and 2011, the Authority owed the Lafayette Consolidated Government \$2,994 and \$2,411, respectively.

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Notes to the Basic Financial Statements (Continued)

The Lafayette Utilities System (LUS) provides management and administrative support functions to the Authority in exchange for a fee. The amount charged to the Authority for these services for the years ended October 31, 2012 and 2011 amounted to \$420,225 and \$409,130, respectively. In addition, LUS provides auxiliary power to the Authority. The amount charged to the Authority for these services for the years ended October 31, 2012 and 2011 amounted to \$109,494 and \$170,458, respectively. As of October 31, 2012 and 2011, the Authority owed LUS \$460,801 and \$445,597, respectively.

The Authority sells electric power to LUS. Amounts billed to LUS for electric power sales for the years ended October 31, 2012 and 2011 were \$58,094,335 and \$64,047,865, respectively. As of October 31, 2012 and 2011, the Authority owed LUS \$6,112,006 and \$1,042,228, respectively.

(11) Concentrations

The Authority, in accordance with its power sales contract disclosed in Note (A), currently sells all of its electric power generated to the City of Lafayette. Should the City of Lafayette seek other possible sources of electricity, the Authority, through its 50% ownership of the Rodemacher Unit No. 2, could conceivably offer power to other interested purchasers.

(12) New Accounting Pronouncements

In November 2010, the Governmental Accounting Standards Board (GASB) approved Statement No. 61, "The Financial Reporting Entity". The statement amends the criteria for the reporting of component units as if they were a part of the primary government (blended component units) and for the inclusion of the component units in the financial reporting entity (discretely presented component units).

In December 2010, the GASB approved Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements". The statement specifically identifies and consolidates the accounting and financial reporting provisions that apply to state and local governments.

In June 2011, the GASB issued Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, deferred Inflows of Resources and Net Position". The statement changes how governments will organize their statement of financial position (such as the current government-wide statement of net assets and the governmental funds balance sheet). Under this standard, financial statements will include deferred outflows of resources and deferred inflows of resources, in addition to assets and liabilities, and will report net position instead of net assets.

The provisions of GASB Nos. 61, 62, and 63 must be implemented by the Government for the year ending October 31, 2013. The effect of implementation on the Government's financial statements has not yet been determined.

LAFAYETTE PUBLIC POWER AUTHORITY  
Lafayette, Louisiana

Notes to the Basic Financial Statements (Continued)

(13) Subsequent Event

Bonds Issued

On December 21, 2012, the Authority issued \$65,100,000 of Electric Revenue Bonds Series 2012 (interest rate of 3.0% to 5.0% maturing in 2032) for the purpose of paying the Authority's share of improvements, renewals, repairs and replacements for the Rodemacher Unit No. 2 fossil fuel steam electric generating plant. Net proceeds in the amount of \$74,600,491 (including original issue premium of \$10,327,627 and costs of issuance of \$827,136) were deposited from the issuance.

(14) Subsequent Event Review

The Authority has evaluated subsequent events through April 23, 2013, the date which the financial statements were available to be issued.

## **SUPPLEMENTARY INFORMATION**

LAFAYETTE PUBLIC POWER AUTHORITY  
Lafayette, Louisiana

Schedule of Changes in Restricted Assets  
For the Year Ended October 31, 2012

	Cash With Paying Agent	Bond Reserve Fund	Bond Principal and Interest Fund	Reserve and Contingency Fund	Fuel Cost Stability Fund	2007 Construction Fund	Total
Restricted cash and cash equivalents, October 31, 2011	\$ 14,265,563	\$ 3,898	\$ -	\$ 5,163,741	\$ 4,500,000	\$ 7,232,778	\$ 31,165,980
Cash receipts:							
Interest received	-	284,933	5,707	7,110	6,293	7,946	311,989
Cash disbursements:							
Principal payments	(13,030,000)	-	-	-	-	-	(13,030,000)
Interest payments	(2,157,076)	-	-	-	-	-	(2,157,076)
Construction payments	-	-	-	-	-	(3,233,889)	(3,233,889)
Transfers among funds:							
Transfers from Bond Principal and Interest Fund	9,078,026	-	-	-	-	-	9,078,026
Transfers from Revenue Fund	-	-	9,078,026	-	-	-	9,078,026
Transfers to Paying Agent	-	-	(9,078,026)	-	-	-	(9,078,026)
Transfers to Revenue Fund - interest	-	(252,747)	(5,707)	(7,110)	(6,293)	-	(271,857)
Restricted cash and cash equivalents, October 31, 2012	<u>8,156,513</u>	<u>36,084</u>	<u>-</u>	<u>5,163,741</u>	<u>4,500,000</u>	<u>4,006,835</u>	<u>21,863,173</u>
Restricted investments and accrued interest, October 31, 2011	-	15,656,629	-	-	-	-	15,656,629
Maturities of investments	-	(15,100,000)	-	-	-	-	(15,100,000)
Purchases of investments	-	8,900,000	-	-	-	-	8,900,000
Decrease in accrued interest receivable	-	(22,880)	-	-	-	-	(22,880)
Decrease in fair value	-	(154,410)	-	-	-	-	(154,410)
Decrease in unamortized premium	-	(274,528)	-	-	-	-	(274,528)
Restricted investments and accrued interest, October 31, 2012	<u>-</u>	<u>9,004,811</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,004,811</u>
Total restricted cash, investments, and accrued interest, October 31, 2012	<u>\$ 8,156,513</u>	<u>\$ 9,040,895</u>	<u>\$ -</u>	<u>\$ 5,163,741</u>	<u>\$ 4,500,000</u>	<u>\$ 4,006,835</u>	<u>\$ 30,867,984</u>

LAFAYETTE PUBLIC POWER AUTHORITY  
Lafayette, Louisiana

Schedules of Operating Expenses  
For the Years Ended October 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating expenses:		
Production -		
Steam power generation - operation:		
Supervision	\$ 87,552	\$ 183,140
Fuel expense	40,995,322	40,968,583
Steam expense	772,506	662,613
Electric expense	663,483	589,770
Miscellaneous	599,964	663,880
Total	<u>43,118,827</u>	<u>43,067,986</u>
Steam power generation - maintenance		
Supervision and engineering	481,584	403,253
Structures	142,747	259,127
Boiler plant	2,535,265	2,916,220
Electric plant	182,666	189,651
Miscellaneous steam plant	781,931	893,539
Total	<u>4,124,193</u>	<u>4,661,790</u>
Steam power generation - maintenance		
Auxiliary power and EPA allowances	<u>109,494</u>	<u>170,458</u>
Total production	<u>47,352,514</u>	<u>47,900,234</u>
Transmission -		
Load dispatching expenses	<u>139,223</u>	<u>147,730</u>
Administrative and general -		
Administrative and general salaries	361,152	362,653
Miscellaneous general expenses	136,772	128,041
Administrative and general expenses	1,542,415	1,752,075
Outside services employed	53,031	88,216
Paying agent fees	12,268	16,144
Property insurance	175,134	150,630
Total administrative and general	<u>2,280,772</u>	<u>2,497,759</u>
Depreciation	<u>1,730,705</u>	<u>669,941</u>
Total operating expenses	<u>\$ 51,503,214</u>	<u>\$ 51,215,664</u>

**INTERNAL CONTROL  
AND  
COMPLIANCE**



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## REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Board of Commissioners  
 Lafayette Public Power Authority  
 Lafayette, Louisiana

We have audited the basic financial statements of the Lafayette Public Power Authority, a component unit of the Lafayette City-Parish Consolidated Government, as of and for the year ended October 31, 2012, and have issued our report thereon dated April 23, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Lafayette Public Power Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion of the effectiveness of the Lafayette Public Power Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Lafayette Public Power Authority's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Lafayette Public Power Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management of the Lafayette Public Power Authority and is not intended to be and should not be used by anyone other than these specified parties. However, under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

***Kolder, Champagne, Slaven & Company, LLC***  
Certified Public Accountants

Lafayette, Louisiana  
April 23, 2013

LAFAYETTE PUBLIC POWER AUTHORITY  
Lafayette, Louisiana

Summary Schedule of Current and Prior Year Audit Findings  
and Corrective Action Plan  
Year Ended October 31, 2012

Ref. No.	Fiscal Year Finding Initially Occurred	Description of Finding	Corrective Action Taken	Corrective Action Planned	Name of Contact Person	Completion Date
CURRENT YEAR (10/31/12) --						
		There were no findings noted.				
PRIOR YEAR (10/31/11) --						
		There were no findings noted.				